

## Comprehensive Instructions for Reconciling Construction Work In Progress (CWIP) to NOAA's CWIP Subsidiary Ledger

### **The Importance of CWIP To NOAA's Financial Statements:**

In recent years, construction work in progress (CWIP) has become the single largest star in NOAA's constellation of financial assets, and it shows no sign of abating. CWIP was \$1.63 billion, on the fiscal year 1999 audited financial statements, which was 46% of total property, plant, and equipment, and 31% of all assets on the balance sheet. This materiality gives NOAA's independent auditors reason to scrutinize the CWIP balances during the course of their annual audit work. If they determine that the CWIP balances are materially misstated, they may disqualify NOAA's financial statements, as a whole or cite them as having a material weakness.

NOAA's processes for accounting for its CWIP balances were written up as "Material Weaknesses" in the FY 96, 97, & 98 Audit Reports; a major reason why a disclaimer opinion was rendered on the financial statements in those years. In FY99, CWIP balances were judged as a "Reportable Condition" (an improvement from previous years).

Reliable and valid CWIP balances, on NOAA's financial statements, can only be achieved if they are regularly monitored and reconciled to NOAA's subsidiary record for CWIP. The responsibility for this vigilance lies with each CWIP task and program manager for each major category of NOAA property. In FY 1999, NOAA's Finance Office did not receive CWIP Reconciliations for 33% of all CWIP task codes stated on the CWIP subsidiary record.

The major categories of property, which are subject to change, currently include:

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-Satellites	- Ships and Launches
-NEXRAD	- Aircraft
-AWIPS	- Buildings
-ASOS	- Structures, facilities, and
-TPMS	leasehold improvements
-CRS	- Betterments and Improvements
-Satellite Ground Systems	to Personal and Real Property
-ORPG	- Software

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The purpose of these reconciliation instructions is to facilitate efficient and reliable verifications and adjustments to the CWIP balances, by task code. These instructions are a supplemental and integral part of the latest issuance of NOAA's CWIP Policies and Procedures Manual.

### **NOAA's Official Subsidiary Record for CWIP:**

NOAA's official subsidiary record for reporting CWIP is the FIMA Report FRFD-15C (15C Report). The 15C Report is arrayed by task code and fiscal year. The **Uncapitalized Cost** balances on the 15C Report, by task within a major property type, is the focus of NOAA's independent auditors' annual review of the CWIP balances. The total CWIP balances stated thereon, plus on top year end adjustments, are the source for the CWIP balances reported on NOAA's General Ledger and in turn the financial statements.

The 15C Report includes columns for total obligations, capitalized costs, and uncapitalized costs. Total obligations include undelivered orders and accrued costs. **Accrued costs** are delivered orders both unpaid and paid. The undelivered orders and accrued costs increase or decrease in response to obligating documents entered at the detail level in the servicing finance center (ASC's) or by cost adjustments (NOAA Form 34-34's) entered at the detail or summary level. Obligation information is aggregated from FIMA Master Files for all years that the task is charged.

The **capitalized** and **uncapitalized cost** columns are adjusted by a separate process related to the input of NOAA Forms 37-6 -- Report of Completed Construction Work In Process (form 37-6). The Finance Office in Germantown, MD, adjusts those columns, of the 15C Report, upon receipt of the form 37-6 from the respective Personal and Real Property Offices. When a form 37-6 is entered into the 15C Report Database, the capitalized costs column is increased and the uncapitalized costs column is decreased by the costs, for the task codes, cited on the form 37-6. For internal control purposes, the input of the NOAA forms 34-34 and forms 37-6 are entered into FIMA by different persons in different branches in Finance.

The 15C Report is updated monthly and is available at the Interactive FIMA Gateway website @ <http://apollo.iso.noaa.gov/reports/fimarpts.html> . At that site, scroll down and click on "**Construction Work in Progress (FRFD 15C)**". This and other FIMA reports, for reconciling obligations, can also be accessed on the Web via the following path:

#### **From the "NOAA Management Information Page" (click the following headings):**

- Information Systems Office
  - Systems Division
    - Interactive - FIMA WWW Gateway
      - Reports
        - Interactive FIMA Reports
        - Construction Work In Progress(15CReport)

**Note:** The web site interface for this and other FIMA reports does not recognized page breaks. Therefore, it is not possible to print specific pages of the 15C Report. The entire report should be printed out either on a high speed printer or by saving it as a text file, and then printing selected pages or portions in that text application.

## **The CWIP Reconciliation Process -- In a Nut Shell:**

The CWIP balance reported on NOAA's financial statements is the **UNCAPITALIZED COST** column on the CWIP Task Status Report - FRFD-15C (15C), plus or minus year end on top adjustments.

Verification of the **UNCAPITALIZED COST** column is the objective and focus of the CWIP Reconciliation performed by the CWIP Task Managers.

The **UNCAPITALIZED COST** column is equal to the "Accrued Cost" column minus, the "Capitalized Cost" column on the 15C Report.

The "Undelivered Orders" column on the 15C must be excluded in CWIP reconciliations because they are not expended costs i.e. the goods and services have not been delivered (received) and therefore they do not meet the criteria for being reported on the balance sheet as an asset.

Reconciliations must have a logical flow from accrued costs to uncapitalized costs. They must foot across. Any adjustments to the 15C Report, reported by a task manager, must be a logical component, in the equation, to verify the **UNCAPITALIZED COST** balance.

### **Reminders:**

- 1) Be careful to include all relevant **fiscal years** and **phase codes** that appear on the 15C Report.
- 2) Reimbursable task codes (A, B, or R) do not get capitalized and would not be reported on a NOAA form 37-6 .

## **Reconciliation Tools:**

Task Managers are required to use the *Revised (FY2001) CWIP Reconciliation Template*, to perform reconciliations of their CWIP balances. It appears, along with a set of instructions, on this Finance Policy web page . This template allows the CWIP task/program manager to map and cross walk their CWIP balances to the 15C Report.

### **Supplemental Reconciliation References:**

The balances on the FRFD15C Report can be substantiated by reference to the IFIMA report "**CWIP**", which uses the data set used to compile the FRFD15C Report. Access is through the

**“Interactive FIMA World Wide Web Gateway”** page, referenced above, for the FRFD15C report. The report can be viewed in either *“Browse”* or *“Download”* mode.

Once inside either mode, select the report “CWIP”. (In the Download mode, “CWIP” is the very last item on the drop down menu). The next screen (in either format) is a template that solicits an array of data elements. (Although any and all of those data fields can be completed, one need only complete the task code field AND “check mark” undelivered orders, cumulative paid, and unpaid expenses, for a specified task, to get balances for those obligations’ fields.) Proceed then, to the bottom of the screen and press “Query” (in the Browse mode) or “Generate” (in the Download mode) to view the requested CWIP information.

**Important Note:** Interactive FIMA queries will not work if you access the Interactive FIMA WWW Gateway page via Microsoft’s *“Internet Explorer”*. You must use Netscape *“Communicator/Navigator”*. If you have problems, call your Systems’ help desk.

Other FIMA reports that can be used in the reconciliation process are listed below. They too can be accessed at the FIMA World Wide Web Gateway address. Those reports, which some CWIP program/task managers may choose to use as their primary record of CWIP obligations, are listed below.

- Monthly and Cumulative Cost and Obligation Detail Report \*
  - Weekly and Quarterly Document Status Reports \*
  - Status of Unliquidated Obligations \*
  - Master Files F00 (and earlier)
  - F00 TRN
  - F99TRN
  - F98 TRN
  - F97 TRN (in archive) & Earlier
  - Other FIMA Reports deemed appropriate by the task manager/program office
- \* Includes an “Interactive” (query based) format of the file.

### **The Reconciliation Process:**

Each CWIP task manager is responsible for reconciling the balances on their proprietary books of record (i.e. CWIP capitalized and uncapitalized costs) to those reported on the 15C Report. Any variances between the 15C Report and the Line/Program Office’s balances, that cannot be explained by a timing difference, must be corrected with either a NOAA form 34-34 or a revised form 37-6.

When the CWIP task/program manager determines that the 15C Report’s **accrued costs** must be revised or corrected, it is the task/program manager’s responsibility to prepare a NOAA Form 34-34 (cost adjustment form) at the document level and submit it to their servicing Administrative Support

Center's Finance Office; or a summary level cost adjustment to the Finance Office in Germantown, MD. (See CWIP Policy and Procedures, (September 1998), Appendix F, and the NOAA Finance Handbook, Chapter 15, "Cost and Obligation Adjustments".)

Similarly, if the reconciliation process exposes errors with the CWIP task/program manager's records, then those records must be adjusted to agree with the 15C Report. However, no form 34-34 would be submitted. Reconciliations should be kept on file by the task manager should questions arise from the Line/Program, or Finance Offices over the cost balances.

If the **Capitalized Cost** balance needs to be adjusted, the task manager must submit a revised 37-6 to the property office. The property office will adjust the property master lists for the **revised** total cost of the CWIP project to be capitalized. They will then forward the form 37-6 to Finance in Germantown for input onto the 15C Rpt.

### **Year End Reconciliation Process:**

Each fiscal year end, every CWIP task manager with a line item on the 15C Report must submit a CWIP reconciliation of their **uncapitalized cost** balances, as stated on their own records, to the **Uncapitalized Cost** balances on the 15C Report. The form for preparing and submitting this exercise is the template available on page 4, above.

This reconciliation, is then forwarded to the task manager's Line/Program Office (LO/PO) for consolidation by major property category (see page 1, above). The *CWIP Sub Project List*, created by NOAA's Budget Office, identifies the consolidator of tasks within a LO/PO at fiscal year end. The LO/PO will then consolidate these reconciliations by property category and forward them to the NOAA Finance Office in Germantown, MD. Those consolidated reconciliations are due in Finance (Germantown), at fiscal year-end by the date specified in the memo "*Fiscal Year End Information, Schedules, and Reports Due from the Line/Program Offices to Finance (Germantown)*".

**Note:** If last minute adjustments are discovered after the year end reconciliation(s) has been submitted to Finance, it is essential that you telephone or e-mail the Finance Office in Germantown, MD, so that Finance can make an on top adjustment to the CWIP account balance. The contact is the Chief of the Financial Statements Branch, at (301) 413-2120 X 185.

The Finance Office (Germantown) will then load all of the CWIP consolidated reconciliations from each of the LO's/PO's onto a large spreadsheet and review the data submitted for reliability (completeness, logic, math accuracy, etc.) If the information for a given task appears reasonable, Finance will include the task manager's reported Uncapitalized Costs in the *NOAA Wide CWIP Reconciliation*. If the reconciliation information is unreliable, Finance will **disqualify** the Uncapitalized Cost Balance submitted by the task manager and use, instead, the Uncapitalized Cost Balance reported on the 15C Rpt. Finance will attempt to contact the task manager for an explanation for an unreliable

reconciliation before disqualifying it.

The reconciled **uncapitalized cost** balances are then adjusted for any year end accruals as reported by the LO's/FMC's at year end.

When Finance has compiled this *NOAA-Wide CWIP Reconciliation*, it is turned-over to the “contract” financial statement auditors. They in turn, will select a sample of **uncapitalized** cost balances, on this document, by task code, for their audit work of CWIP. This usually entails a review of the documentation on file with the task manager to ensure that the balances reported, on the reconciliation, are reliable. The contract auditors also perform midyear reviews of CWIP balances so it is important that reconciliations be performed on a regular basis and that documentation be organized and readily accessible throughout the year.

**NOTE:** It is okay if the contract auditors find that a task manager's records do not tie directly to the latest 15C Report, if the task manager can document the reasons for the differences.

### Tracking On Top Accruals and Task Manager Adjustments in the Subsequent Fiscal Year

As mentioned earlier, at year end, a task manager's reported Uncapitalized Cost balance as declared on her/his CWIP reconciliation, will be adjusted for any accruals reported to Finance at year end. The task manager needs to track the status of these accruals and any task manager on top adjustments, in the subsequent fiscal year. These accruals may include NOAA Management Fund to Program and Construction Account adjustments, as well as other accruals determined via the year-end “call” for goods and services delivered by 9/30/XX, but not paid until sometime into the following fiscal year.

If the actual amount of the accruals that get paid or the amount of task manager adjustments differs from that originally reported to Finance at year end, Finance needs to know those differences and adjust the General ledger accordingly. Therefore, task managers can expect periodic inquiries from Finance during the course of the following fiscal year to determine whether the amounts for those adjustments, that cleared at the detail level, differed from what was initially reported in the previous fiscal year end.

### **Reconciling CWIP Balances After a Project is Capitalized (Completed)**

Merely submitting a NOAA form 37-6, to the Property Office and Finance, after a project is completed, does not relieve the task manager from reconciling their CWIP balances. That is, if after that milestone, a **positive** or **negative** balance exists in the Uncapitalized Cost Column or a balance exists in the Undelivered Orders Column -- for task(s) associated with a project.

When a project is completed, and no additional costs are expected, the **Accrued Costs Column** on the 15C Report should equal the **Capitalized Cost Column** such that the **Uncapitalized Cost Column equals zero**. If the Uncapitalized Cost Column is more than zero, the task manager must submit a Form 34-34 to reduce the Accrued Cost Column, so that it equals the Capitalized Cost Column, which will make the Uncapitalized Cost Column equal zero.

Likewise, if the **Uncapitalized Cost Column** is negative, then additional costs need to be added (via a Form 34-34) to the Accrued Costs Column of the 15C so that it too equals the Capitalized Cost Column -- forcing the Uncapitalized Cost Column to zero. If it is subsequently determined that the imbalance in the Uncapitalized Cost Column is due to incorrect costs reported on the Form 37-6, a revised 37-6 must be submitted to the Property Office and Finance (Germantown).

### **Purging Task Codes and Their Cost Balances From the 15C Report**

A CWIP task code -- and its related uncapitalized cost balance will **drop off** the 15C Report at the beginning of a new fiscal year when the following criteria are met. The balance for the Undelivered Orders column is zero **AND** the Uncapitalized Cost column is zero. Then, and only then will the task drop from the 15C Report and with it the requirement to perform periodic reconciliations including a year end reconciliation to be submitted to Finance.

Therefore, as soon as a given project is complete, any excess accrued costs over and above the amount capitalized should be “zeroed-out” of the 15C Report as well as zeroing out the Undelivered Orders balance. However, it is okay to carry a balance in the Undelivered Orders column and or a **positive uncapitalized cost** balance, for a completed project, if contingencies are expected for subsequent events or other costs are expected in the near future that will necessitate submission of a revised Form 37-6. The burden of need for carrying additional accrued costs and or undelivered orders, after completion of a project, is **on the task manager**.

### **Editing NOAA Form 37-6 Prior to Submission to Appropriate Property Office:**

Before a form 37-6 is submitted to the appropriate Personal or Real Property office, the preparer must ensure that the costs, stated thereon, cross walk to the **Accrued Cost Column** for the task(s) cited on the 37-6 to the latest 15C Report. If the costs declared on the form 37-6 do not cross walk to the Accrued Cost Column of the 15C Report, a brief explanation **MUST** accompany the form 37-6 explaining the differences (e.g. timing differences caused by cost adjustment in transit, vendor invoices in transit, additional costs expected, etc).

### **Questions, Comments, and Contacts:**

If you have any questions about this reconciliation process or comments on these prescribed procedures, please contact the Financial Reporting Division in Germantown, MD.

## Glossary of Terms

**Accrued Paid Expenses** - Goods and services that have been received (delivered) and paid for.

**Accrued UnPaid Expenses** - Goods and services that have been received (delivered) but not yet paid for.

**Capitalize** - To record as an asset. Then, subsequently recognize a portion of the original acquisition cost as an operating expense (depreciation/amortization) over a predetermined time period (estimated useful life). Capitalized assets are reported on NOAA's balance sheet net of accumulated depreciation/amortization. NOAA has established dollar thresholds and minimum useful lives as criteria for property capitalization. For further guidance, see NOAA's "Personal Property Home Page" @ <http://www.wasc.noaa.gov/noaaprop/>

**Construction Work in Progress (CWIP)** - A temporary "holding account" for collecting costs during projects related to the acquisition of capital property, plant, and equipment. Applicable to projects defined by the following: 1) having an aggregate acquisition cost of \$200,000 or more or bulk purchase of \$1,000,000 or more; 2) having an estimated service life of 2 years or more; 3) provides a long-term economic benefit to the organization which maintains or obtains control, and 4) not intended for sale in the ordinary course of operations, and 5) will eventually be capitalized and reported in the financial statements.

**CWIP Task Code** - A unique six digit alphanumeric index assigned to capture all costs associated with a given CWIP project. A CWIP project will have at a minimum two task codes. 1) A unique task code for capturing all costs associated with the project that are to be capitalized. 2) A second task code for non-capitalized (expensed) costs. The CWIP Policies and Procedures Manual discusses CWIP task codes in detail. Additional information on task codes and their structure can be found in Chapter 12, Section 3, of the NOAA Finance Handbook.

**CWIP Task Manager** - The individual who initiates obligating documents for a CWIP project. They also collect and verify all costs, including direct and incidental labor associated with the CWIP project. See the CWIP Policies and Procedures Manual for a detailed list of the responsibilities of a CWIP task manager.

**Expense** - The act of recognizing as a cost of operations non capitalized assets or the periodic depreciation/amortization related to capitalized assets. Expenses are reported on NOAA's income statement.



**Line Office** - The largest organizational component of NOAA that is responsible for carrying out a series of related strategic and operational objectives. A Line Office is responsible for management of funds allocated to it by NOAA's Comptroller. NOAA Line Offices include: National Environmental Satellite, Data and Information Services (NESDIS); National Marine Fisheries Services (NMFS); Office of Oceanic and Atmospheric Research (OAR); National Ocean Service (NOS); and the National Weather Service (NWS).

**Program/Staff Offices** - Offices that provide administrative and technical support to the Line Offices. These include among others: the Office of High Performance Computing and Communications; Systems Acquisition Office; Office of NOAA Corps Operations, and Office of Comptroller.

**Total Obligations** - The sum of undelivered orders and accrued costs (paid and unpaid) at the end of a period e.g. month, or year end.

**Uncapitalized Costs** - The dollar balance of a CWIP project that represents the difference between total accrued costs and the capitalized portion (amount transferred to a property account at the completion of the project as reported on a Form 37-6). The uncapitalized portion may include excess or invalid cost balances that need to be expensed or adjusted at the close of a CWIP project.

**Undelivered Orders** - Orders for goods and services that have been ordered but not received. When undelivered orders become delivered, they are recognized as an expense, whether or not paid.